

191—93.5 (511,521A) Internal controls.

93.5(1) Before engaging in an aggregated derivative transaction or a conduit derivative transaction, the conduit shall have established written guidelines that shall be used for effecting and maintaining such transactions.

93.5(2) The guidelines shall:

a. Address investment or, if applicable, underwriting objectives, risk constraints, and the factors considered in establishing risk constraints such as credit risk limits;

b. Address permissible transactions and the relationship of those transactions to the conduit's operations, such as a precise identification of the risks being hedged by a derivative transaction;

c. Set forth a credit risk management system for over-the-counter derivative transactions that measures credit risk exposure using the qualified counterparty exposure; and

d. Require:

(1) Compliance with internal control procedures;

(2) That the board of directors of the conduit shall approve the guidelines and determine whether the conduit has adequate professional personnel, technical expertise and systems to implement investment practices involving derivatives;

(3) That only the board of directors of the conduit or its authorized designee may approve derivative instrument transactions;

(4) That the board of directors of the conduit or its designee exercise administrative oversight of trading functions;

(5) Periodic reporting of open positions to a responsible officer designated by the board of directors of the conduit; and

(6) That the reports set forth in rule 191—93.6(511,521A) be filed with the Iowa insurance commissioner as required.